

**Letter Report: The Internal Revenue Service
Adequately Handled Installment Agreements on
Large Dollar Accounts**

August 2001

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 9, 2001

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION
COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

A handwritten signature in black ink, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Letter Report - The Internal Revenue Service Adequately
Handled Installment Agreements on Large Dollar Accounts

This report presents the results of our review to determine the Internal Revenue Service's (IRS) compliance with the IRS Restructuring and Reform Act of 1998 (RRA 98)¹ and the Internal Revenue Code (I.R.C.)² as it relates to taxpayers fully paying large dollar tax liabilities through installment agreements. In summary, we found that the IRS is adequately handling installment agreements on large dollar accounts.

Management agreed with our conclusion presented in this report. The full text of their comments is included as an appendix.

Please contact me at (202) 622-6510 if you have questions or Susan Boehmer, Acting Assistant Inspector General for Audit (Wage and Investment Income Programs), at (770) 936-4590.

¹ RRA 98 § 1103, Pub. L. No. 105-206, 112 Stat. 685 (1998).

² 26 U.S.C. § 6159(a) (1994 & Supp. IV 1998)

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Objective and Scope

This audit was conducted to determine the IRS' compliance with the RRA 98 and the I.R.C. as it relates to taxpayers fully paying large dollar tax liabilities through installment agreements.

This audit was conducted to determine the Internal Revenue Service's (IRS) compliance with the IRS Restructuring and Reform Act of 1998 (RRA 98)¹ and the Internal Revenue Code (I.R.C.)² as it relates to taxpayers fully paying large dollar tax liabilities through installment agreements.

The scope of our review was limited to Wage and Investment (W&I)³ taxpayers that owed \$100,000 or more in interest, penalties, and tax and were making nominal periodic payments that would not fully pay their tax liabilities within the 10-year time period that the IRS has to collect tax debts.

As of October 12, 2000, we identified 847 W&I taxpayers that owed balances of \$100,000 or more and were making periodic payments. From this total population of W&I taxpayers, 140 taxpayers were making nominal payments on their accounts. From this group of taxpayers making nominal payments, we reviewed a judgmental sample of 67 case files. Our sample included both installment agreements and continuous levies and consisted of 29 pre-RRA 98 cases and 38 post-RRA 98 cases.

The audit was conducted from September 2000 through February 2001. This audit was performed in accordance with *Government Auditing Standards*. Major contributors to this report are listed in Appendix I. Appendix II contains the Report Distribution List.

¹ RRA 98 § 1103, Pub. L. No. 105-206, 112 Stat. 685 (1998).

² 26 U.S.C. § 6159(a) (1994 & Supp. IV 1998)

³ W&I taxpayers file returns containing simpler tax issues, with most of their taxes being withheld by their employers. Generally, these returns do not contain business issues.

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Background

Installment agreements allow taxpayers to pay their tax debts in monthly payments based on their financial conditions.

For those taxpayers that are delinquent in paying their taxes, the IRS has several alternatives available to secure payment. One method is the installment agreement. Installment agreements allow taxpayers to pay their tax debts in monthly payments based on their financial conditions and the time remaining for the IRS to legally collect the tax debts.

If a taxpayer does not qualify for an installment agreement or is not willing to pay voluntarily, the IRS has various options to enforce collection. One such option is the continuous levy. A continuous levy is similar to an installment agreement in that periodic payments are received. However, these payments are not made voluntarily by the taxpayer and do not require full payment of the liability within the statutory collection period.

Results

The IRS is in compliance with the RRA 98 and the I.R.C.

The IRS is in compliance with the RRA 98 and the I.R.C. We found no inappropriate actions taken on our sample of W&I taxpayers whose tax liabilities totaled \$100,000 or more.

The Internal Revenue Service Is in Compliance With Laws and Regulations

Prior to the RRA 98, the IRS established installment agreements that would not fully pay the interest, penalties, and tax within the 10-year statutory collection period.

Prior to passage of the RRA 98, the IRS had more discretion in working with those taxpayers that requested installment agreements. On occasion, the IRS would establish agreements knowing that the nominal payments would not fully pay the interest, penalties, and tax within the 10-year period that the IRS has to collect tax debts. In most cases, the nominal payments were the largest payments

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Most installment agreements established after the RRA 98 must fully pay the tax liabilities within the 10-year statutory collection period.

the taxpayers could afford to pay and still meet their basic living expenses.

When the time available for the IRS to collect the unpaid tax debts was about to expire, the IRS could request taxpayers to sign waivers allowing the IRS more time to collect the tax debts. Theoretically, the time allowed for the IRS to collect tax debts could be extended several times over the lives of the installment agreements. If the taxpayers refused to sign the waivers, the IRS had the option to terminate the agreements and attempt to enforce collection of the remaining tax debts.

After the passage of the RRA 98, the IRS and its Chief Counsel generally took the position that installment agreements had to fully pay tax debts before the end of the 10-year time period that the IRS has to collect them. The IRS' policy allowed taxpayers with installment agreements in place when the RRA 98 was passed to continue making nominal monthly payments, as long as they remained compliant with their original agreements. If these taxpayers did not continue to meet the terms of their agreements, the IRS could terminate those agreements. Any reinstated installment agreements were then required to fully pay the liabilities within the remaining time for collection. If the taxpayers refused or could not afford to pay the tax liabilities, the IRS could establish continuous levies and attempt to enforce collection.

In one of our sampled cases, the taxpayer did not continue to meet the terms of the installment agreement established prior to the RRA 98. The IRS rescinded the installment agreement and a continuous levy was subsequently made on the account.

Currently, the IRS limits any payments on new installment agreements to a single voluntary extension of 5 years or less beyond the standard 10-year collection period. These extensions must be signed by the taxpayers at the time the installment agreements are established or the IRS cannot collect on the tax debts beyond the 10-year collection

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period. These extensions limit the IRS to a maximum 15-year period in which to collect a taxpayer's debt. The IRS' policy does not allow extensions to be requested on current installment agreements established prior to the RRA 98.

We identified 26 taxpayers in our sample that had installment agreements established prior to the RRA 98 that are currently meeting the terms of their nominal payment agreements. However, based on current financial conditions for these taxpayers, it is unlikely the IRS will be able to collect approximately \$1.4 million in assessed taxes from these accounts before they expire at the end of Calendar Year (CY) 2002.

According to current policy, the IRS cannot ask these taxpayers to extend the time for collecting their tax debts. The remaining approximately \$4.8 million in taxes assessed on these sampled taxpayers will expire intermittently by the end of CY 2011. In addition, we identified another 29 taxpayers from our pre-RRA 98 population of W&I taxpayers that were making nominal payments on installment agreements totaling approximately \$16.3 million that may eventually fall into the same situation.

Conclusion

Our review showed that the IRS is in compliance with the RRA 98 and the I.R.C. and is treating taxpayers with installment agreements on large dollar accounts fairly. The IRS has developed additional policies that will allow it to honor the terms of all installment agreements while continuing to comply with the terms and spirit of the RRA 98.

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Installment Agreements on Large Dollar Accounts**

Appendix I

Major Contributors to This Report

Walter E. Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs)

Stanley C. Rinehart, Director

Bryce Kisler, Audit Manager

Kristi Larson, Senior Auditor

Alan Lund, Senior Auditor

Sharon Summers, Senior Auditor

Charles Ekunwe, Auditor

David Hartman, Auditor

Craig Pelletier, Auditor

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Appendix II

Report Distribution List

Commissioner N:C
Director, Compliance S:C
Director, Compliance W:C
Director, Strategy and Finance W:S
Director, Legislative Affairs CL:LA
Senior Operations Advisor W:S

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Appendix III

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

July 30, 2001

OFFICE OF TREASURY
INSPECTOR GENERAL
RECEIVED

2001 JUL 31 P 5:26

FOR TAX ADMINISTRATION

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM:

John M. Dalrymple
John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT:

Draft Letter Report - "The Internal Revenue Service Adequately
Handled Installment Agreements on Large Dollar Accounts"
(Audit #2000-40-039)

I appreciate the opportunity to respond to your draft letter report "The Internal Revenue Service Adequately Handled Installment Agreements on Large Dollar Accounts." The IRS has been committed to delivering the provisions and the spirit of the IRS Restructuring and Reform Act of 1998 (RRA 98). The RRA 98 gave the IRS a new direction and a new challenge. Neither Congress nor the IRS could have anticipated all the implications, including resources, needed to implement the full scope of RRA 98. Given the magnitude of these changes, I am pleased your report acknowledges our successful implementation as it relates to taxpayers fully paying large dollar tax liabilities through installment agreements.